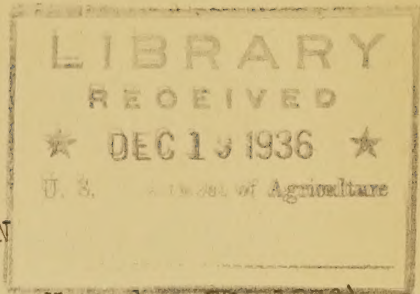


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THE CONSUMER LOOKS AT COMPETITION

(American Marketing Society, Atlantic City, New Jersey, November 27, 1936)
D. E. Montgomery, Consumers' Counsel, Agricultural Adjustment Administration.

Inquiries received in large number by Consumers' Counsel Division in the Agricultural Adjustment Administration and by Consumers' Project in the Department of Labor reflect wide-spread interest in the consumer movement about which so much has recently been written. I believe this awakening of consumer activity points to two significant factors in current history. Steps taken within the last four years to deal with the problems of business as problems of public interest and public concern have encouraged the ultimate retail buyer to become aware of himself and to find his voice as one of the major participants in the business process.

In the second place, it is possible that the present surge of consumer interest is just one manifestation of the slow process by which a national economy comes of age. When a nation is growing rapidly it is prolific in opportunities for making a living. Like a colt its legs are long and its head is small. Making money is the measure of success, and many of us are on the make. Even those who live most miserably share in the general intoxication, and pattern their psychology upon the possibility that they too may some day make a killing. For many people the depression has changed that outlook. Those who live by the stock market appear to be out on the trail again riding full tilt to be up with the pack at the kill; but those who live on wages and on salaries may have lost their faith in sudden wealth.

This is how I interpret the growing interest in the problems of the consumer on the part of people of average means. The realization is growing, as it has for long years past in the more sedate economies of European countries, that the man who works for a living must think how he spends as well as how he earns.

Consumers are beginning to look with new interest at the goods and services which business offers them for their money. They want to know more about these goods. They want to know what makes them useful, what makes them durable, that is to say, what gives them value as something to be used, not merely purchased. And they want to know the relative qualities of goods so that they may compare variations in usefulness with differences in price. In short, they want to know how to get their money's worth.

As consumers examine the market place for answers to these questions, what do they find? In the first place they find very little information about the real qualities of the goods which business has for sale. They find that goods are sold to them by salesmen who know practically nothing about the essential qualities of goods which determine their usefulness; that these salesmen are employed by distributors who know little more; and that those who manufacture the goods and know their real merit, or lack of it, prefer to sell upon the reputation of a brand rather than disclose frankly the true quality characteristics of their merchandise. And how shall consumers be guided in their purchases by the thousands of brands that confront them? The reputation that goes with a brand may well be worthy of consumer confidence, but is not a substitute for specific information such as

the owner of the brand himself requires when he is making purchases for his business.

Let me tell you what a group of consumers in Iowa found when they examined 10,500 labels on canned fruits and vegetables. All of the labels examined showed the net weight of the contents because this is required by law, and this is the only item of specific information that appeared on all the labels. Even this did not tell them the net weight of fruit or vegetables included in the contents. In 90 percent of the cases no standardized clear-cut term was given to indicate quality. The descriptive terms used, varied, according to the report, "through all degrees of usefulness, such as 'this can contains 6-8 halves' to those which bordered on the ridiculous such as one found on peas which read 'smooth and sweet as big drops of honey,' and one on beans which read 'an abundance of sunshine, pure radium charged air and cool nights give these beans their splendid color and flavor.'" Many of them carried such meaningless descriptive terms as "Extra Wisconsin," "English Style," "Triple Extra," but all of them carried a brand name. How successful these brand names were in describing to the consumer what was in the can I can only indicate by naming some that you will find on canned fruits and vegetables: Tiger, King Cole, Devotion, Old Mother Hubbard, Pride of King George, Blue Hen's Chickens, Barefoot Boy, and Mozart.

When their growing curiosity turns consumers from this baffling inquiry in the market place and leads them to ask what aids and protections they get from government in the expenditures of their money, they will find

there also a variety of perplexing answers. They will find laws which aim to protect them from fraud and from dangerous merchandise, but they will find that such laws are limited to a very narrow field indeed. And they will find that on the whole they receive through government some protection in the exceptional case but very little to inform them in the normal purchase of every day commodities. However they will find, and they are finding, excellent government grading services on some food products by which the knowledge of experts may be concretely put to the service of consumers who are not experts. To be sure these services are voluntary and will receive wide application only when consumers demand them. Should consumers extend their inquiry beyond the field of ordinary goods and services into the field of investment and speculative securities, they will find both state and federal governments spending large sums of money and exercising great care to see that purchasers of securities are most thoroughly informed about the commodity which is offered to them. The average consumer will wonder perhaps why a type of expenditure which can not at the outside take more than a minor fraction of his income should be so carefully safeguarded while his purchases of the necessities of life receive no comparable protection.

Consumers have not yet begun to look at competition. So far I think they are looking only at its results in the goods and services which it makes available to them. When they have become more experienced in the arts of consumer curiosity and look beyond the goods to the processes of trade which make them what they are, what will they see through their consumer eyes? I think they will realize as they never have before that there is a great deal of active competitive rivalry in

the field of business. But they will see also that a great part of this competitive effort is wasted on them as consumers because it is misdirected; because it is aiming at goals which do not promise real gains in the standard of living; because it seeks new ways of getting consumers to spend money, rather than new ways of getting more goods consumed. In the case of milk, for example, they will find little if any effort being expended to discover ways of drastically reducing the cost of distribution; but they will find profitable effort devoted to the business of persuading consumers that high-toned milk from happy cows, irradiated with mechanical sunshine and delivered under a fancy cap should be purchased at higher prices whether they need it or not. With literally millions of consumers and consumers' children living on dangerously short rations of fresh milk, the great brains and energy of the milk business are given to the arts of merchandising this humble product rather than to the task of overhauling old methods from top to bottom in a determined effort to discover how distribution costs may be reduced and consumption increased. And the example of milk is not exceptional, it is only one of many.

How competitive effort is thus misdirected, consumers will understand more clearly when they come to see that competition is a double-acting mechanism. It can exert a force downward upon prices, or it can exert a force upward upon what is offered at the price. In the case of staple commodities sold under traditional methods of merchandising, competition is likely to exert most of its effect upon price. But where there is resistance to price cutting and the commodities lend themselves to quality merchandising, then competition exerts itself in the upward

direction, adding to the range and variety of things for sale and the amount of services furnished along with the goods.

In either event consumers would seem to gain. And so they would but for the fact that both the downward pressure and the upward pressure may exert themselves in ways that are not in the public interest. Business is well aware that the price push may bear unequally upon different kinds of competitors and that other factors than efficiency may determine the outcome of this unequal pressure. Or the price pressure may come suddenly like a catastrophe, wiping out the fit and the unfit indifferently. Consumers, on the other hand, are coming to see that the competitive urge to add to what is offered at the price may force upon them superfluous services which they do not need or cannot afford, may over-emphasize the importance of quality, and above all may encourage more costly methods of distribution by giving persuasion, rather than price, the major role in determining consumers' choices.

From the consumer viewpoint how shall these alternative directions of the competitive urge be reconciled? Well, in the long run to this end: that competitive forces not only shall decide which business unit shall fail and which succeed, or which manner of doing business shall prevail over another, but shall make possible that discovery of new methods and that coordination of known methods which will raise the standard of living by increasing the quantity of things produced, distributed and consumed.

More specifically, consumers want competition to exert a continuing downward pressure upon price, and they want this pressure to act in such a way as to reward those who discover the roads to new economies. When they

learn more about the competitive process they will agree that not all forms of price cutting are beneficial, that some of them may be unfair and unproductive of public good, as, for example, when they reflect the power of size rather than the economy of large-scale dealing, or when they discriminate in favor of some at the expense of others without regard to their relative merits. But the longer view of public interest and consumer welfare calls for competition which permits and encourages a continually expanding volume of goods consumed, and lower prices in general lead in that direction. Therefore the Robinson-Patman Act and the so-called fair trade laws are against the interest of consumers and against the public interest if in practice they are found to act as barriers in the way of price reductions in general. Consumers can endorse laws designed to eliminate really unfair practices of price cutting, but they cannot accept as a means to that end any law which is found to put the brand of illegality upon the act of price cutting per se or to place upon those who cut prices an insupportable burden of proof.

Sound public policy here must be based upon acceptance of the principle that lower prices relative to wages and other costs mark out the main highway of public interest. Unfair forms of price cutting are the side roads which cut across the main highway, interrupting through traffic or diverting some of it into by-paths or into the ditch. Such traffic tangles are unfortunate, but they are not to be corrected by laws which say that you travel the through highway at your peril. The situation calls for stop signs on the side roads, fences along the ditches and traffic lights where they are needed. But we may find out that the type of legislation now in

favor sets up stop signs against through traffic, puts its fences across the highway and gives us traffic lights which no one can understand.

On the question of what is offered at the price, the consumer demand is for more facts and less fiction. Let quality factors be known and prices be flexible and consumers will decide for themselves whether they wish to pay more for better quality and more services, or pay less for lower quality and less service. But for those who have something to sell it is not at all a matter of indifference whether consumers pay more for more or less for less. Each individual business has an interest in seeing to it that they pay more for more. It is in the business of selling, and the more it can add in quality and services to what it sells the larger is its share of the total amount of business transacted. Therefore we find every effort being made to bring it to pass that competitive effort shall expand itself upward upon what is offered at the price, rather than downward upon price itself. Hence the colossal misdirection of competitive effort; the apparent willingness of business to neglect serious problems of fundamental economy which are crying for solution. Hence also the urge in the other direction to persuade consumers to purchase higher quality whether they need it or not; the appeal to fear and pride and snobbery as a substitute for facts and judgment in the selection of products; the compounding of unnecessary and extravagant service features in the transaction of sale, as, for example, the financing of instalment purchases on a scale so extended and so costly as to require that the rate of interest involved be grossly misrepresented from one end of the country to the other.

As consumers come to see what they pay for quality they do not need and for services they cannot afford, and come to understand how stabilization of prices by various artificial means forces competition in this direction, they will bring a new point of view into the determination of public policy with respect to unfair competition. They will see that misrepresentation is unfair not only because it deceives the customer and injures the competitor, but also because it permits too much of the competitive pressure to expend itself in the furnishing of imaginary quality and burdensome services. And they will see too that unfair price practices are not confined to those which injure one competitor at the expense of another, but include also those devices and controls which injure business as a whole because by freezing the price structure they prevent those progressive price adjustments that are needed -- basic adjustments which will open the door to increased consumption, higher standards of living and greater business opportunities in furnishing essential goods and services.

I am aware that this way of stating the case puts all the blame upon business for the many defects of the competitive process. From a different viewpoint it will be said that business can only give its customers what they want; that consumers do not seek real economy in making their purchases, but insist upon the psychological appeal; that when consumers know what they want business will give it to them. The question can be looked at from both angles, but I doubt the validity of the assumption that methods of doing business are controlled and determined by the dominant will of the consumer. Business shapes and modifies the desires of consumers. American business brains which can sell the public on the virtue of streamlining everything from locomotives to wedding rings,

which can sell a nation on the perils of pink toothbrush, on the need of putting motor oil in cans -- business with this capacity is equally able to educate its customers on the real usefulness of commodities. Business knows how consumers should buy to make the most effective use of their money, for business itself buys in that way. All the way down the line of production and distribution goods are passed along in transactions where purchasers know what they are buying, why they are buying it and why they pay the price they pay. Doubtless not all is perfectly wise in the buying that precedes the retail sale, but only in the final purchase by the consumer is full rein given to the exploitation of ignorance, indifference and bewildered complacency.

Some time will elapse, I expect, before consumers have graduated from the study of goods as such to the study of trade practices and business customs which make goods what they are. By that time it may have come to be generally recognized that we can no more make ourselves prosperous as a nation through competitive practices which ignore basic needs than we can support ourselves by taking in each other's washing. Higher actual standards of material well being can be achieved only through a continually expanding volume of goods produced, distributed and consumed. To accomplish this calls for exploration, adventure and discovery. What are the great needs among consumers of all classes? How may these be met? How may the business system be geared to increasing the quantity of goods consumed? How may it help consumers to buy just that type of commodity which for them most economically meets their needs?

If business cannot make these the major objectives of the competitive process, then it is evident that consumers, when they come to look at competition, will undertake to do the job for themselves. This they will not find easy, but they will find it possible. Businesses run by consumers are proving that the meeting of fundamental consumer needs can be adopted as the primary objective of successful business enterprise.

